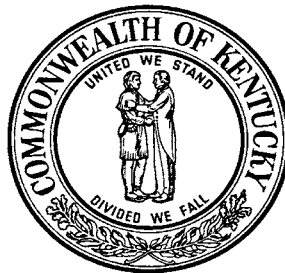


**REPORT OF THE AUDIT OF THE
FORMER CALLOWAY COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 13, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER CALLOWAY COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 13, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for the former Calloway County Sheriff, Stan Scott, as of August 13, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$8,799,502 for the districts for 2001 taxes, retaining commissions of \$312,823 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,480,803 to the districts for 2001 Taxes. Taxes of \$28 are due to the districts from the Sheriff and refunds of \$262 are due to the Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Should Have Had A Written Agreement to Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds. However, the depository institution did not have a written agreement with the former Sheriff securing the Sheriff's interest in the collateral.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Elkins, Calloway County Judge/Executive

Honorable Stan Scott, Former Calloway County Sheriff

Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the former Calloway County Sheriff's Settlement - 2001 Taxes as of August 13, 2002. This tax settlement is the responsibility of the former Calloway County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Calloway County Sheriff's taxes charged, credited, and paid as of August 13, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Larry Elkins, Calloway County Judge/Executive
Honorable Stan Scott, Former Calloway County Sheriff
Members of the Calloway County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2002, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Had A Written Agreement to Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 19, 2002

CALLOWAY COUNTY
STAN SCOTT, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

August 13, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,072,858	\$ 1,843,537	\$ 2,837,459	\$ 1,430,477
Tangible Personal Property	227,352	220,780	382,770	478,995
Intangible Personal Property				131,987
Taxes Increased Through				
Erroneous Assessments	292	521	863	389
Current-Year Franchise	86,739	105,110	154,442	
Prior-Year Franchise	9,069	10,185	19,332	
Bank Franchise	90,754			
Additional Billings	6,292	8,422	1,714	1,907
Penalties	8,390	14,307	23,563	11,613
Adjusted to Sheriff's Receipt	(9)	84	12	(3)
Gross Chargeable to Sheriff	<u>\$ 1,501,737</u>	<u>\$ 2,202,946</u>	<u>\$ 3,420,155</u>	<u>\$ 2,055,365</u>
<u>Credits</u>				
Exonerations	\$ 14,627	\$ 20,019	\$ 24,848	\$ 14,122
Discounts	20,675	32,305	49,440	33,423
Delinquents:				
Real Estate	17,354	30,754	50,116	23,139
Tangible Personal Property	1,592	1,598	2,773	4,524
Intangible Personal Property				491
Uncollected Current-Year Franchise	12,049	13,047	13,316	
Uncollected Prior-Year Franchise	103	113	273	
Total Credits	<u>\$ 66,400</u>	<u>\$ 97,836</u>	<u>\$ 140,766</u>	<u>\$ 75,699</u>
Taxes Collected	\$ 1,435,337	\$ 2,105,110	\$ 3,279,389	\$ 1,979,666
Less: Commissions *	<u>61,289</u>	<u>76,928</u>	<u>90,183</u>	<u>84,423</u>
Taxes Due	\$ 1,374,048	\$ 2,028,182	\$ 3,189,206	\$ 1,895,243
Taxes Paid	1,373,171	2,026,594	3,186,995	1,894,043
Refunds (Current and Prior Year)	<u>896</u>	<u>1,572</u>	<u>2,402</u>	<u>1,240</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (19)</u>	<u>\$ 16</u>	<u>\$ (191)</u>	<u>\$ (40)</u>

STAN SCOTT, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2001 TAXES
 August 13, 2002
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	5,124,286
2.75% on	\$	3,279,389
1% on	\$	385,827

** Special Taxing Districts:

Library District	\$	(1)
Health District		(6)
Extension District		(3)
Soil Conservation District		1
Jail District		20
Fire District		7
Timber District		<u>(2)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u>16</u>

The accompanying notes are an integral part of the financial statement.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT

August 13, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the former Sheriff securing the Sheriff's interest in the collateral.

CALLOWAY COUNTY
NOTES TO FINANCIAL STATEMENT
August 13, 2002
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2001 through April 22, 2002.

Note 4. Interest Income

The former Calloway County Sheriff earned \$2,302 as interest income on 2001 taxes. The Sheriff overpaid the school district and the remainder will be used to operate the Sheriff's office. As of December 19, 2002, the former Sheriff is due \$91 in interest from the school district and owes \$59 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Calloway County Sheriff collected \$42,050 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Calloway County Sheriff collected \$2,186 of advertising costs and \$9,334 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Escrowed

The Sheriff maintains an Escrow Account for any unrefundable duplicate payments and unexplained receipts. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2001 tax year, the Sheriff's Escrow Account had a beginning balance of \$2,245, \$575 in the unrefundable duplicate payments and unexplained receipts, interest earned of \$79, and disbursements to taxpayers of \$120 leaving an ending balance as of August 13, 2002 of \$2,779.

COMMENTS AND RECOMMENDATIONS

CALLOWAY COUNTY
STAN SCOTT, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

August 13, 2002

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Had A Written Agreement to Protect Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of November 30, 2001, the Sheriff had bank deposits of \$2,981,462; FDIC insurance of \$100,000; and collateral pledged or provided of \$6,617,389. Even though the Sheriff obtained sufficient collateral of \$6,617,389, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. The former Sheriff should have entered into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and, (c) an official record of the depository institution.

Sheriff's Response:

No response.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The following compensating controls could have been implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout, and receipts ledger.
- The Sheriff should compare the monthly reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly reports.
- All disbursements should be signed by two people with one being the official.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

We have always had two signatures on our checks mine and the bookkeeper.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Calloway County Sheriff's Settlement - 2001 Taxes as of August 13, 2002, and have issued our report thereon dated December 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Calloway County Sheriff's Settlement - 2001 Taxes as of August 13, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards, and which is described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Had A Written Agreement to Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Calloway County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 19, 2002

